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 INFO RUEHBO/AMEMBASSY BOGOTA 3373
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 RUEHCV/AMEMBASSY CARACAS 9426
 RUEHBU/AMEMBASSY BUENOS AIRES 2385
 RUEHBR/AMEMBASSY BRASILIA 6732
 RUEHBJ/AMEMBASSY BEIJING 0370
 RUCPDO/DEPT OF COMMERCE WASHINGTON DC
 RUEATR/DEPT OF TREASURY WASHINGTON DC
 RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC
 RUEHZU/ASIAN PACIFIC ECON COOP COLLECTIVE
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DEPT FOR WHA/AND, WHA/EPSC, EB/TPP/ABT
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 SUBJECT: TEXTILE SECTOR GROWING AT DIMINISHED RATE

REF: 05 Lima 2523

¶1. (SBU) Summary. Peru's textile and apparel industry witnessed a 2.6 percent increase in exports during the first quarter of 2006 year-on-year, substantially less than the 13 percent growth witnessed during the same period in 2005. Government officials attribute this slow down in growth to concerns about the status of the U.S.-Peru free trade agreement and the upcoming expiration of ATPDEA benefits. Ministry of Production officials also claim that textile production has matured and the sector needs new investment. GOP officials believe that the sector will pick up again after the June 4 Presidential elections, when the future path of Peru will be more clearly defined. Chinese apparel imports have risen dramatically in 2006, prompting the GOP to review the need for safeguards. End Summary.

Slow but Steady Export Growth

¶2. (U) Since the implementation of ATPDEA in 2002, which granted duty-free access to the U.S. market for more than 6,500 Peruvian products, Peru's textile and apparel sector has grown by more than 30 percent. This growth is primarily seen in the export sector, as domestic market sales have increased by approximately 3 percent since 2002. In 2005, textile and apparel products now accounted for slightly less than 10 percent of Peru's exports, the majority of which are destined for the United States.

¶3. (U) In 2005, Peru exported approximately \$1.7 billion in textiles and apparel products, up from the \$1.2 billion exported in 2004. While Peru has more than 15,000 companies registered in the apparel sectors, 25 companies account for 72 percent of total apparel exports.

Peruvian Textile Exports, 2003-2006*

USD, millions			Export Share %		
2004	2005	2006*	2004	2005	2006*

Textiles	204.7	211.3	51.4	1.7	1.2	1.2
Apparel	887.3	1062.4	246.8	7.2	6.2	5.6
Txtl/App'l	1092.2	1273.7	298.1	8.8	7.5	6.7
Total Expts	12370.1	17000.6	4435.8	100.0	100.0	100.0

Source: INEI (Statistics Bureau), Central Bank, National Society of Industry

*Through First Quarter 2006

¶4. (U) While Peru's textile and apparel sector grew 13 percent in 2005, first quarter 2006 statistics are not as promising. The textile and apparel sector exported \$298.1 million during the first quarter 2006 - only a 2.6 percent higher than the \$290.3 million exported during the same period last year. Overall textile and apparel exports to the United States actually decreased by 3.2 percent, from \$192.3 million in first quarter 2005 to \$186.1 million during the same period in 2006.

Accounting for the Slow Down:
The Importance of the FTA

¶4. (SBU) Officials from the Ministry of Trade (Mincetur) and the Ministry of Production informed us that the slow down in the textile sector is due to several reasons, including the uncertainty in the political sector, maturation of investment in the textile sector, and concerns about the status of the Andean Trade Promotion and Drug Eradication Act (ATPDEA) and the pending free trade agreement. Carlos Ferraro, Director of Industry at the Ministry of Production, noted that, under ATPDEA, the

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textile and apparel sectors quickly expanded; manufacturers have reached their output capacity. The sector, in order to grow and meet increasing demand, will need to attract new investment.

¶5. (SBU) Vice Minister of Industry Antonio Castillo confirmed that orders for apparel products have decreased during 2006 -- a phenomenon he linked to the imminent expiration of ATPDEA benefits in December 2006 and the uncertainty surrounding the U.S.-Peru free trade agreement. The FTA, he declared, is vital to the health of Peru's textile and apparel sector. Without duty free access to the U.S. market, Peruvian textiles would be subject to a 20 percent tariff rate, making them uncompetitive with cheaper products from China, India and even the Central American countries. According to the Peruvian Statistical Institute, close to 500,000 indirect and direct textile jobs are dependent on the textile export sector. Without a free trade accord, Castillo and Ferraro opined, many of these jobs may be eliminated in the coming years.

¶6. (SBU) Ferraro echoed comments made by Mincetur officials to the press: that the economic uncertainty in Peru should level out after the second round of Presidential elections on June 4. Once the new President is elected and his economic plans become more clearly defined, Ferraro asserted (assuming the President supports a pro-trade agenda) that orders for apparel products would increase. The Ministry of Trade predicts that overall growth in the textile and apparel sector should reach 10 percent by the end of 2006.

Threat of Chinese Imports

¶7. (SBU) Castillo noted that imports of textile and apparel products have increased from \$109.8 million in first quarter 2005 to \$124 billion in the same period of 2006, a 12.8 percent increase. Products from China, totaling \$22.9 million, account for almost 20 percent of these imports. Ferraro explained that Chinese textile and apparel imports

have increased by 264 percent during the first quarter 2006, which has led many in Congress to call for the reapplication of safeguards. Minister of Production David Lemor has gone on record, denouncing the need for safeguards on Chinese apparel products, but the Ministry of Production will study the issue and make its recommendation to the Peruvian Congress.

18. (SBU) Castillo informed us that Minister Lemor believes that the solution to increasing Chinese imports is not the application of safeguards, but rather a bilateral agreement between Peru and China to limit imports. According to the Chinese Embassy in Peru, the GOP has not yet discussed this option with the Chinese.

Comment

19. (SBU) The United States continues to be the most important market for Peruvian apparel products. With the free trade accord and duty-free access to U.S. markets, Peru's textile and apparel industry will become more competitive. Officials in the textile and apparel sector, as well as within the GOP, clearly recognize the importance of maintaining duty-free access to the United States. The political uncertainty surrounding the Peruvian Presidential elections, the imminent expiration of ATPDEA, and the pending status of the FTA continue to deter needed investment in these sectors. It is evident that the U.S.-Peruvian trade accord is key to the continued expansion of the Peruvian textile and apparel industries.

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